

Contributors

Juan Manuel Herrera

Senior Economist/Strategist
Scotiabank GBM
+44.207.826.5654
juanmanuel.herrera@scotiabank.com

Guillermo Arbe, Head Economist, Peru
+51.1.211.6052 (Peru)
guillermo.arbe@scotiabank.com.pe

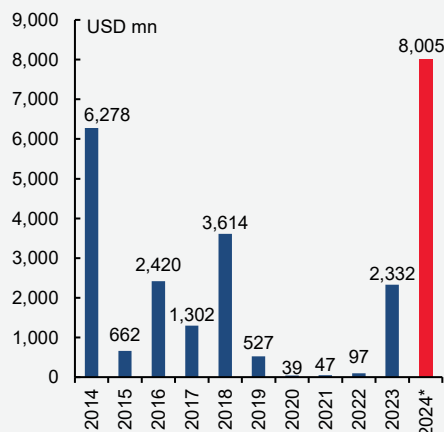
Sergio Olarte, Head Economist, Colombia
+57.601.745.6300 Ext. 9166 (Colombia)
sergio.olarte@scotiabankcolpatria.com

Jorge Selaive, Head Economist, Chile
+56.2.2619.5435 (Chile)
jorge.selaive@scotiabank.cl

Eduardo Suárez, VP, Latin America Economics
+52.55.9179.5174 (Mexico)
esuarezm@scotiabank.com.mx

Chart 1

Peru: Public Private Partnerships



2024* Government agenda target.
Sources: Scotiabank Economics, The Private Investment Promotion Agency - PROINVERSIÓN.

Latam Daily: Peru—Normalization in Public Management Begins to Pay Off

Political noise has become our daily bread in Peru. You wake up with it in the morning, you go back to bed with it at night. At times it seems to drown out every other sound and signal arising from the State. And yet, if you listen closely, you can hear the hum of actual governance buzzing in the background. Barely audible underneath the political din, an improvement in State management and public administration is starting to reverberate and contribute to growth.

A number of signs linked to this improvement have begun to emerge lately, including the following:

1. There has been a strong increase in tenders of Public-Private projects, PPPs. The government is targeting USD 8bn in tenders in 2024, the highest level in at least a decade. The figure is credible, because nearly half this amount, over USD 3.8bn, had been tendered in the year to April (although, admittedly, most of this was in a single project— an expressway surrounding the city of Lima). This is the second consecutive year in which the PPPs tenders process has shown life, as tenders in 2023 amounted to USD 2.3bn. Tenders in 2023–2024 contrast with very low levels (under USD 100mn) between 2019 and 2022.

Given that many of the PPPs consist of long-maturity projects, the actual investment execution will be slower over time than the tender agenda itself. However, we are already seeing a 17% YoY increase in construction for tendered infrastructure in the year-to-April 2024. The important thing is that the government is putting a lot of effort in tendering infrastructure projects through PPPs, which should have an increasing impact on growth over time (chart 1).

2. Another method that the government is using to get infrastructure investment moving is via government-to-government, G2G, projects. Peru had a very successful experience in tendering out to the government of Great Britain the investment in infrastructure required for the 2018 Pan American Games. This model did not progress, however, during the 2019–2022 period of political instability and high rotation of authorities. The current government has resurrected the G2G method, and ongoing projects plus those in the pipeline amount to a substantial USD 10bn (table 1).

Table 1: Peru—G2G Investment Projects (US\$ mn)

Project	Investment Estimate (US\$mn)	Partner Country	Investment Start Date	Status
New Central Highway	6000	France	4Q25	Preliminary studies
Bicentennial Schools	1578	United Kingdom	4Q21	Construction underway
Chavimochic Stage 3 Irrigation	750	Canada	2Q25	Contract Signing
Chincheru Airport	658	South Korea	2023	Construction underway
Santa Rosa Expressway	557	France	4Q24	Construction underway
Hospitals	538	France	2024	Construction underway

Sources: Scotiabank Economics, Press.

3. Even your plain vanilla public sector investment is accelerating, having increased 39.9% YoY in Q1. National government public investment was up 37.2%, which is strong in itself. However, the national government makes up only roughly a third of public sector spending. Thankfully, regional and local governments have also begun to respond in 2024. Note that regional/local government spending follows a political cycle. Given the high turnover rate in authorities, spending at this level is generally very low in the first year

after elections, and then picks up in latter years. This is exactly what is happening. The year 2023 was the first term year for regional/local authorities, following the elections in November 2022. In keeping with past political cycles, regional/local government investment declined 5.3% in 2023, and has risen 57.7% in Q1- 2024. As a result of both national government enthusiasm and regional/local government spending normalization, public sector investment is turning into a major driver of domestic demand in 2024 (chart 2).

4. A much smaller, but still feisty, additional method to undertake public sector investment projects, is what is known here as Obras por Impuestos (OxI), or Works for Taxes. This is a format in which the private sector may execute selected investment projects of public interest, and then write the investments off as tax deductions. In 2024 OxI investment in the year-to-May stands at USD 420mn, which annualizes to USD 1 bn. This would be the highest potential figure since 2017, if the rate continues throughout the year (chart 3).

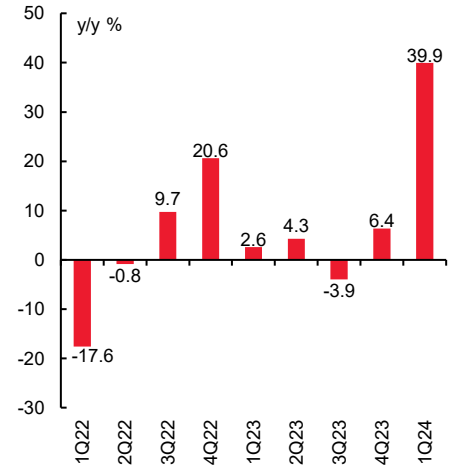
All these factors are positive, but they are also largely incipient. The dimension of these factors together is not quite enough for us to modify our growth forecasts... yet. But, this is mainly because it is early days, and it's best to allow for a bit more time to elapse so as to have a clear view of potential impact. Furthermore, much of the impact may be slow in coming, as many of the projects have a long maturity period. Having said this, however, we now see significant upside to our forecasts of 2.7% GDP growth in 2024 and 2.5% in 2025.

One of our greatest concerns during the 2021–2022 Pedro Castillo regime was the tremendous deterioration in public administration. The Castillo government was, perhaps, part of an ongoing downtrend in public administration since 2018 (no doubt, linked to the large turnover in authorities, including six presidents, some forty cabinets, and three congresses in the six years from 2018 to 2023). So it's refreshing to see signs that public administration is returning to something closer to normality.

—Guillermo Arbe

Chart 2

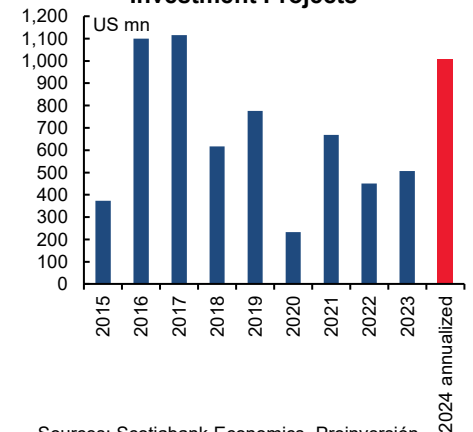
Peru: Public Investment Growth



Sources: Scotiabank Economics, BCRP.

Chart 3

Peru: Works for Taxes Investment Projects



Sources: Scotiabank Economics, Proinversión.

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